

WOODSREEF MINERALS LTD.

Annual Report 1972

364-5371

Board of Directors J.H. Black
Michael Clay
G.R. Cowan
L.G. Dayus
D.R. Lynn
C.A. Milner
R.J. Pulford
H.H.N. Robinson
J.E. Stedelbauer

H.J. Blake

Officers J.H. Black Chairman
J.E. Stedelbauer Vice-Chairman
Michael Clay President
C.A. Milner Secretary-Treasurer

Registrars and Transfer Agents Guaranty Trust Company of Canada,
Calgary, Toronto and Vancouver

Auditors Riddell, Stead & Co.,
Toronto

Solicitors McLean, Lyons & Kerr,
Toronto

Offices Suite 1014, Suite 1101,
159 Bay Street, 56 Pitt Street,
Toronto, Canada Sydney, Australia

Mine Office Barraba,
New South Wales,
Australia

Stock Exchange Listings Toronto Stock Exchange
Vancouver Stock Exchange

Annual Report 1972

Bankers Canadian Imperial Bank of Commerce

Capital Stock Issued - 46,667 9½% cumulative, convertible, redeemable
voting preference shares, par value \$15
- 6,731,517 common shares

President's Report

On behalf of the Board of Directors, I have pleasure in presenting the 1972 Annual Report of Woodsreef Minerals Ltd.

1972 was the first year of the commissioning and operation of our asbestos mine and mill at Barraba, Australia.

It was anticipated that our mining venture, like others, would experience operational problems during this first year.

Mr. Robinson, Chairman and Managing Director of our subsidiary Woodsreef Mines Limited, came to Canada in late February 1973 and reported:

(1) The fibre percentage in our orebody was at least as high as that originally projected.

(2) Operational problems had been encountered in separating the fibre bundles, resulting in a substantial loss in our first year of operation.

However, through extensive tests conducted first in our laboratory on site and followed by commercial application in the mill circuit, the separation problem has been solved.

We had therefore negotiated with The Commercial Bank of Australia and Marubeni Corporation, our Japanese agents, for the \$1,300,000 (Aust.) required for the new fibre separation equipment and expansion. This loan has now been arranged, and manufacture and installation is already under way with an expected completion date of June 1973.

(3) The world-wide acceptance of our fibre had resulted in orders on hand to match the entire output of the increased mill capacity for 1973.

Unlike most companies, Woodsreef Mines did not incur debt against its plant initially, and through a combination of a decision to change the layout of the plant during the construction period to permit future expansion (this increased the cost by over a million dollars), the excess of actual over estimated construction cost, and the separation problem (which reduced production), our subsidiary had to borrow operating capital, resulting in a working capital deficiency on the balance sheet. However, a company of our capital structure would normally have \$6-7 million long-term debt financing against a \$17 million plant and this would be below the line.

Exploration on our other properties has been held back to permit the concentration of our financial resources to the asbestos project. Negotiations are in progress for joint venture exploration on the Galwadgere and Bowlake properties.

In summary, the acceptance of our fibre, combined with the solution of the separation problem and the installation of the new fibre recovery unit, should make Woodsreef a viable project in 1973.

When it is remembered that we have gone alone in this large scale project without selling any part of the Company to a major asbestos company, the future rewards should be that much greater, especially when coupled with the fact that we have the only producing asbestos mine in Australia.

Future

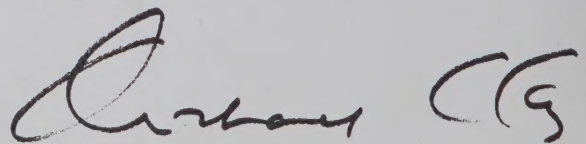
On the basis that predictions for future production and market penetration become effective, Woodsreef Mines expects to become profitable in mid-1973 when the new fibre separation and expansion equipment start to contribute to production.

In 1974, anticipated production is 115,000 tons. At this level of output, Woodsreef Mines management projects a profit of between Aust. \$3 million and \$3.5 million (Cdn. \$4.2 million and \$4.9 million) before allowance for depletion and tax. Woodsreef Mines should not be liable for tax before 1976.

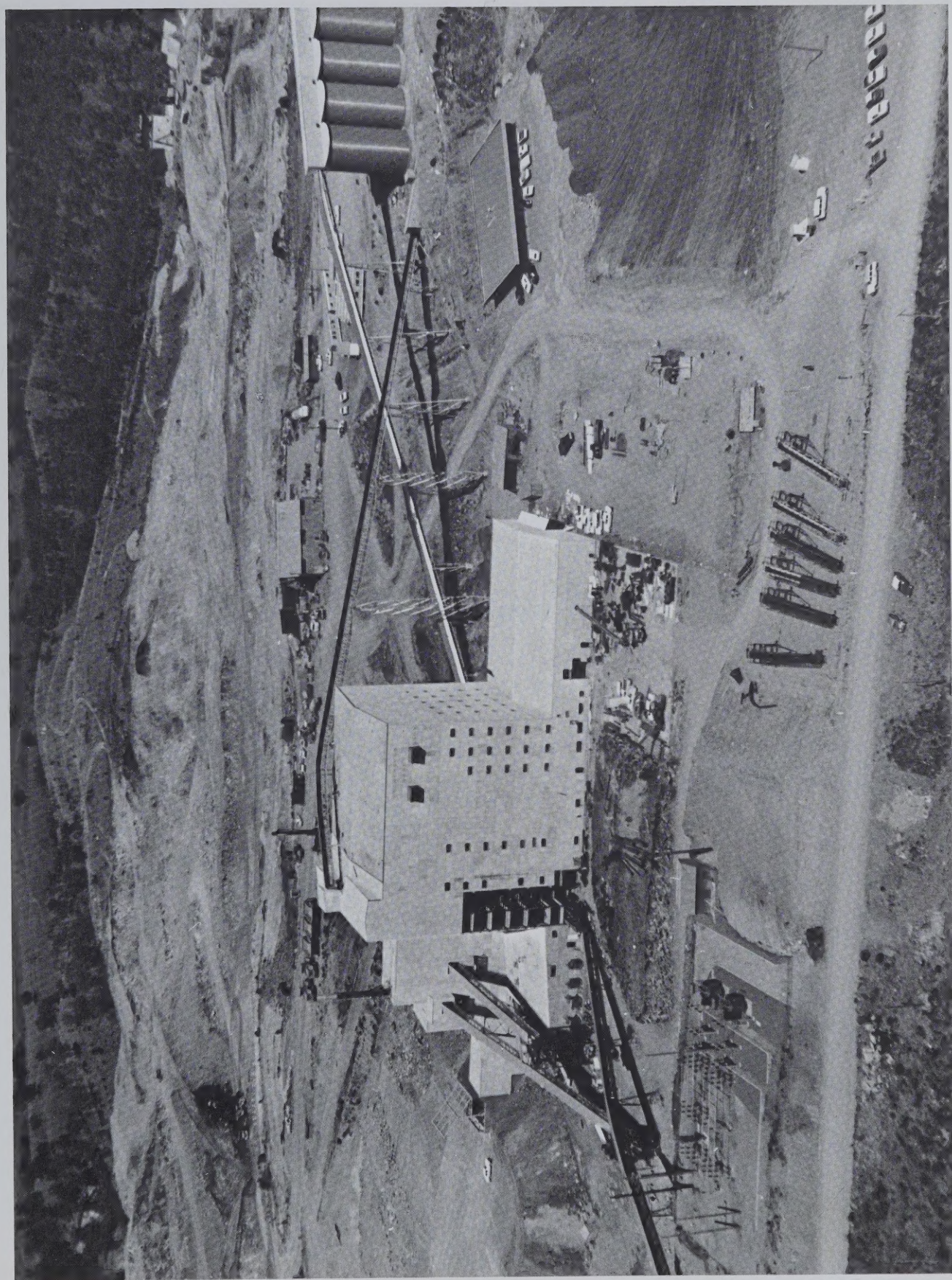
These profit figures have provided for the loss in revenue attributable to the devaluation of the U.S. dollar, but do not allow for any increase in asbestos prices.

The capacity of the plant now on site at Barraba can be increased to 140,000 tons per annum, and will be expanded as sales increase. You will recall that the Company holds large acreage at Yulgilbar, New South Wales, Australia. Although the asbestos deposit there has not been explored in detail, its dimensions exceed those at Barraba. Naturally, therefore, if our sales increase above the 140,000 ton level, this deposit has the potential to permit future expansion of our asbestos production.

For and on behalf of the Board,



Michael Clay,
President.



Woodsreef Asbestos Mine and Mill, Barraba, Australia.

Woodsreef Minerals Ltd.

Consolidated Balance Sheet as at

ASSETS

	October 31, 1972	1972	May 31, 1971
Current Assets			
Cash	\$ 136,561	130,718	12,685
Accounts receivable and prepaid expenses	244,063	179,761	270,481
Short-term investments (secured), at cost	—	719,800	14,633,040
Inventory, fibre stock at estimated realizable value, other inventories at the lower of cost and replacement cost	441,586	389,430	—
	<u>822,210</u>	<u>1,419,709</u>	<u>14,916,206</u>
Mining Properties and Related Expenditures			
Mining claims in production, less accumulated amortization (Note 1)	5,921,395	6,075,807	6,099,998
Buildings, machinery, equipment and preproduction expenses (Note 2)	22,430,537	20,670,906	6,216,929
	<u>28,351,932</u>	<u>26,746,713</u>	<u>12,316,927</u>
Accumulated depreciation and depletion (Note 1)	844,865	175,938	—
	<u>27,507,067</u>	<u>26,570,775</u>	<u>12,316,927</u>
Other mining claims including development expenditures thereon	1,380,630	2,012,209	1,527,160
	<u>28,887,697</u>	<u>28,582,984</u>	<u>13,844,087</u>
Other Assets			
Underwriting expenses, at cost less accumulated amortization of \$231,545 (May 31, 1972 — \$194,628; May 31, 1971 — \$98,375)	755,811	792,728	888,621
Other	37,161	39,129	17,007
	<u>792,972</u>	<u>831,857</u>	<u>905,628</u>
	<u>\$30,502,879</u>	<u>30,834,550</u>	<u>29,665,921</u>

Signed on behalf of the Board:

"MICHAEL CLAY", Director.

"H. H. ROBINSON", Director.

AUDITORS' REPORT

To The Shareholders
Woodsreef Minerals Ltd.

We have examined the consolidated balance sheet of Woodsreef Minerals Ltd. (formerly Pacific Asbestos Limited) as at October 31, 1972 and May 31, 1972 and the consolidated statements of income and deficit and source and application of funds for the periods then ended. As to the company and its Canadian subsidiary, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. As to the Australian subsidiaries, which reflect the major portion of

the consolidated assets and operations, we have relied on the reports of other chartered accountants.

In our opinion, which insofar as it relates to the subsidiary companies is based solely upon the reports of other chartered accountants, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1972 and May 31, 1972 and the results of their operations and the source and application of their funds for the periods then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 16, 1973

RIDDELL, STEAD & CO.,
Chartered Accountants.

October 31, 1972 and May 31, 1972

LIABILITIES

	October 31, 1972	1972	May 31, 1971
Current Liabilities			
Bank indebtedness	\$ 21,508	658,641	691,425
Accounts payable and accrued	977,849	772,185	1,023,149
Loans payable	—	—	1,120,000
Dividends payable	—	16,626	—
Current portion of long-term debt (Note 2)	465,840	467,619	—
	<u>1,465,197</u>	<u>1,915,071</u>	<u>2,834,574</u>
Long-Term Debt (Notes 2 and 6)	<u>5,267,829</u>	<u>2,587,419</u>	<u>1,543,342</u>
Minority Interest in Subsidiary	<u>18,008,480</u>	<u>18,895,193</u>	<u>19,177,073</u>
Unrealized Gain on Foreign Exchange (Note 1)	<u>415,833</u>	<u>410,846</u>	<u>—</u>

SHAREHOLDERS' EQUITY

Capital Stock (Notes 2 and 3)			
Authorized			
46,667 9½ % cumulative, convertible, redeemable (at par) voting preference shares, par value \$15 each			
15,000,000 common shares of no par value not to be issued for a consideration in excess of \$25,000,000			
Issued (Note 3 (b))			
46,667 preference shares	700,005	700,005	—
6,731,517 common shares (May 31, 1972 — 6,706,517; May 31, 1971 — 5,908,120)	9,342,960	9,310,460	8,363,298
Contributed Surplus	<u>190,790</u>	<u>190,790</u>	<u>190,790</u>
	<u>10,233,755</u>	<u>10,201,255</u>	<u>8,554,088</u>
Deficit	<u>4,888,215</u>	<u>3,175,234</u>	<u>2,443,156</u>
	<u>5,345,540</u>	<u>7,026,021</u>	<u>6,110,932</u>
	<u>\$30,502,879</u>	<u>30,834,550</u>	<u>29,665,921</u>

**Notes to Consolidated Financial Statements for the Five Months Ended
October 31, 1972 and the Year Ended May 31, 1972**

1. ACCOUNTING POLICIES

Principles of Consolidation

The accounts of the wholly-owned Canadian subsidiary, Dover Tin Mines Limited, together with its wholly-owned Australian subsidiary, Dover Tin Mines Pty. Limited, and the 58.57% owned Australian subsidiary, Woodsreef Mines Limited ("Woodsreef Mines") and its subsidiaries have been consolidated with those of the company.

Acquisition of Woodsreef Mines Limited

The company acquired its shares in Woodsreef Mines during the year ended May 31, 1971 by purchasing shares for cash and receiving 90,999,960 shares as consideration for all of its shares of three Australian companies together with amounts receivable therefrom. The company has agreed not to sell or to seek "official quotation" (qualify the shares for trading and thus obtain quotation for the shares on the various Australian Stock Exchanges) of the 90,999,960 shares prior to August 20, 1973.

Woodsreef Mines had an excess cost of \$24,311,129 over the book value of the subsidiaries acquired. On consolidation of Woodsreef Mines with the company, there was an excess of book value over cost of \$18,211,131. The net excess of cost over book value of \$6,099,998 has been attributed to

mining properties and is being amortized (\$154,412 for the five months ended October 31, 1972 and \$24,191 for the year ended May 31, 1972) on the basis of production from the asbestos ore body.

Foreign Exchange

The accounts of the Australian subsidiaries have been converted to Canadian dollars as follows:

Current assets and current liabilities at the rate of exchange at the balance sheet date.

Income and expenses at the average rate of exchange for the period.

Other assets and liabilities at the rate of exchange prevailing when such assets were acquired and liabilities incurred.

There was an unrealized gain on foreign exchange of \$415,833 at October 31, 1972 and \$410,846 at May 31, 1972.

Depreciation and depletion

Depreciation and depletion of mine buildings and equipment and preproduction expenses is provided on the unit-of-production method based on the estimated proven reserves. Depreciation of other equipment is provided on the straight-line method based on their estimated useful life.

2. LONG-TERM DEBT

The long-term debt consists of the following:

	October 31, 1972	May 31, 1972	May 31, 1971
(a) 9% bank loan due June 30, 1973, secured by 26,761,838 shares of Woodsreef Mines and personal guarantees of six directors. The company has also reserved for the bank 1,000,000 common shares of its capital stock that would be issued in the event the loan is not repaid	\$ 600,000	600,000	387,000
(b) 10% note payable including accrued interest, due September 30, 1973, secured by 11,834,000 shares of Woodsreef Mines and is convertible into Woodsreef Mines shares at \$.25 Australian per share. This note is repayable in Swiss Francs and has been converted at the rate of exchange in effect at October 31, 1972 (Note 6)	1,391,357	1,309,970	1,156,342

2. LONG-TERM DEBT (continued)

	October 31, 1972	May 31, 1972	1971
(c) 7½ % bank loan due December 31, 1974, guaranteed by Marubeni Australia Pty. Limited to \$1,291,000 with the balance secured by a second mortgage on the plant and equipment. The company has given a first mortgage on the plant and equipment to Marubeni in support of the guarantee	\$2,277,808	—	—
(d) 5¾ % notes due in monthly instalments to December 1974, less current maturities of \$465,840 (May 31, 1972 — \$467,619)	480,397	677,449	—
(e) Loans received from Australian government agencies of which \$191,946 is due by June 30, 1982, with the remainder repayable when the company reaches a profitable position	488,267	—	—
(f) Shareholder loans	30,000	—	—
	\$5,267,829	2,587,419	1,543,342

Although long-term debt in the amount of \$2,021,357, is due within one year, it is management's intention to retire such indebtedness

through additional long-term borrowings or equity financing.

3. CAPITAL STOCK

- (a) Each preference share is convertible into 8 common shares up to December 31, 1974 or up to December 31, 1975 if cumulative dividends are in arrears. Each preference share is entitled to 50 votes per share at all shareholders' meetings held up to December 31, 1974 and 10 votes per share at all meetings thereafter.

The dividend payment on the preferred shares is in arrears for the quarter ending September 30, 1972 in the amount of \$16,626.

- (b) By an agreement dated June 29, 1972 the directors of the company approved the allotment and issue of 700,000 common shares valued at \$1,050,000 in exchange for 52.5% of the shares of another company. On October 13, 1972 the directors approved the return of the shares to the vendor and the cancellation of the 700,000 shares. Such cancellation requires approval of the shareholders of the company which approval will be sought at the next shareholders' meeting. In view of the fact that the transaction was cancelled, the 700,000 shares are not shown as issued on the balance sheet.

During the year ended May 31, 1972 the company issued 798,397 common shares for \$947,162 in cash and 46,667 preference shares for \$700,005 in cash. During the five months ended October 31, 1972, 25,000 common shares were issued for \$32,500 in cash.

- (c) The company has reserved 100,000 shares for issue under options to officers of the company. The options are exercisable in varying quantities up to December 31, 1973 at a price of \$1.30 per share. Subsequent to October 31, 1972 options on 62,500 shares lapsed.

4. COMMITMENTS

At October 31, 1972 the company had commitments totalling approximately \$343,000 in respect of mill construction, mine development and housing development.

5. CONTINGENT LIABILITIES

- (a) There is a contingent liability in respect of a disputed contract for engineering fabrication under which a claim has been made against Woodsreef Mines in the amount of \$667,000.
- (b) A claim in the amount of \$48,871 has been made against the company with respect to a transaction which was not completed. Also a former officer and director of the company has filed a statement of claim in the amount of \$141,000 against the company, in respect of an employment contract.

The company is contesting these claims. No provision has been made in these financial statements for any liability which may arise as a result of these claims.

6. SUBSEQUENT EVENT

In 1973 the Canadian dollar declined in relation to the Swiss franc, and had the exchange rate prevailing at March 16, 1973 been in effect at October 31, 1972 an additional liability of approximately \$260,000 would have existed at October 31, 1972 in respect of the 10% note repayable in Swiss Francs.

7. EXECUTIVE REMUNERATION

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company during the five months ended October 31, 1972 amounted to \$57,708, for the year ended May 31, 1972, \$121,302 (1971 — \$68,578).

**Consolidated Statement of Income and Deficit for the Five Months
Ended October 31, 1972 and the Year Ended May 31, 1972**

	Five Months Ended October 31, 1972	1972	Year Ended May 31, 1971
Revenue			
Sale of asbestos fibre	\$ 1,423,943	196,149	—
Interest	—	574,276	1,084,452
Other	50,012	111,580	—
	<u>1,473,955</u>	<u>882,005</u>	<u>1,084,452</u>
Expense			
Cost of fibre production	1,656,180	551,918	—
Administration and selling expenses	817,360	809,936	428,889
Depreciation, depletion and amortization (Note 1)	729,483	201,890	1,329
Interest	124,351	186,450	241,056
	<u>3,327,374</u>	<u>1,750,194</u>	<u>671,274</u>
Operating Income (Loss) Before Minority Interest	<u>(1,853,419)</u>	<u>(868,189)</u>	<u>413,178</u>
Minority Interest in Operating (Income) Loss of Subsidiary	<u>594,887</u>	<u>242,152</u>	<u>(325,898)</u>
Operating Income (Loss)	<u>(1,258,532)</u>	<u>(626,037)</u>	<u>87,280</u>
Cost of mining property abandoned including expenditures thereon less minority interest	<u>(390,934)</u>	<u>—</u>	<u>—</u>
Income (Loss) Before Extraordinary Item	<u>(1,649,466)</u>	<u>(626,037)</u>	<u>87,280</u>
Extraordinary item			
Gain (loss) on foreign exchange	<u>(25,267)</u>	<u>—</u>	<u>74,911</u>
Net Income (Loss) for the Period	<u>(1,674,733)</u>	<u>(626,037)</u>	<u>162,191</u>
Deficit at beginning of period	<u>3,175,234</u>	<u>2,443,156</u>	<u>2,630,065</u>
	<u>4,849,967</u>	<u>3,069,193</u>	<u>2,467,874</u>
Add			
Amortization of underwriting expenses	21,622	56,165	57,830
Dividends on preference shares	16,626	49,876	—
	<u>4,888,215</u>	<u>3,175,234</u>	<u>2,525,704</u>
Less			
Transfer of prior years' administrative expenses to deferred exploration and development	<u>—</u>	<u>—</u>	<u>82,548</u>
Deficit at End of Period	<u>\$ 4,888,215</u>	<u>3,175,234</u>	<u>2,443,156</u>
Earnings (Loss) Per Share			
Before extraordinary item	<u>\$(.25)</u>	<u>(.10)</u>	<u>.02</u>
After extraordinary item	<u>\$(.25)</u>	<u>(.10)</u>	<u>.03</u>

**Consolidated Statement of Source and Application of Funds for the Five Months
Ended October 31, 1972 and the Year Ended May 31, 1972**

	Five Months Ended October 31, 1972	1972	Year Ended May 31, 1971
Source of Funds			
Net income for the period	\$ —	—	162,191
Non-cash expenditures (depreciation and minority interest in income of subsidiary)	—	—	327,227
	—	—	489,418
Proceeds from long-term debt	2,680,410	1,044,077	1,543,342
Minority interest in subsidiary	—	—	18,892,080
Issue of common shares			
For cash	32,500	947,162	410,854
For shares of another company	—	—	3,500,000
Issue of preference shares	—	700,005	—
Unrealized gain on foreign exchange	4,987	410,846	—
	<u>2,717,897</u>	<u>3,102,090</u>	<u>24,835,694</u>
Application of Funds			
Net loss for the period	1,674,733	626,037	—
Non-cash expenditures (depreciation, amortization, mining property abandoned and minority interest in loss of subsidiary)	588,673	40,262	—
	1,086,060	666,299	—
Dividends on preference shares	16,626	49,876	—
Underwriting expenses	—	—	820,086
Fixed assets (net)	—	23,883	13,050
Mining properties and related expenditures	1,762,836	14,939,026	11,399,076
	<u>2,865,522</u>	<u>15,679,084</u>	<u>12,232,212</u>
Increase (Decrease) in Working Capital	(147,625)	(12,576,994)	12,603,482
Working capital (deficiency) at beginning of period	(495,362)	12,081,632	(521,850)
Working Capital (Deficiency) at End of Period	<u>\$ (642,987)</u>	<u>(495,362)</u>	<u>12,081,632</u>

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